

# Memorandum

**To:** Chairman and Commissioners

**Date:** October 17, 2003

**From:** Diane C. Eidam

BOOK ITEM 4.2  
INFORMATION

**Ref:** Policy on AB 3090 Cash Reimbursements and GARVEE Debt Service

**Issue:**

What limitations, if any, should the Commission place on its commitments for GARVEE bond debt service? Should the Commission extend its current policy limits on AB 3090 cash reimbursements to include GARVEE debt service, or should it place other limits on GARVEE debt service? When this issue was raised at the September meeting as part of a report on the current status of STIP cash commitments, the Commission asked staff to prepare a policy recommendation.

**Recommendation:**

Staff recommends that the Commission consider the policy proposal in this book item as a baseline for discussion and possible action in December. This will allow time to receive comment from interested parties and allow time to receive and develop further information, including the year-by-year capacity in the 2004 STIP fund estimate. Also in December, the Commission is scheduled to consider action on five proposed STIP amendments that would make new cash commitments for AB 3090 reimbursements or GARVEE bond debt service.

**Background:**

The Commission established its AB 3090 policy earlier this year when the freeze on allocations created a sudden demand for AB 3090 arrangements as a means of moving projects forward. Under an AB 3090 arrangement, a local agency uses its own funds to implement a STIP project and is programmed in a later year to receive either an undesignated replacement project or a direct cash reimbursement. The policy adopted in April generally gives preference to replacement projects and places limitations on cash reimbursements. Scheduled cash reimbursements are limited to \$200 million annually statewide and to \$50 million annually for the projects of any single agency or county. In addition, the policy limited the approval of cash reimbursements to projects that were programmed for delivery in the current fiscal year and to projects from future years that met each of three conditions: (1) the regional agency found the project to be its highest priority for the year of reimbursement, (2) the project qualified for Federal funding, and (3) the source of local funds to be used could not or would not be made available for an AB 3090 replacement project.

The primary reason for applying these policy limitations was that, by statute, a scheduled cash reimbursement has first priority statewide for a STIP allocation in the year in which it is programmed. The approval of an AB 3090 cash reimbursement locks in the highest priority for one project and makes future programming elsewhere less flexible. While other projects (including AB 3090 replacement projects) may be rescheduled to later years in the 2004 STIP, approved AB 3090 cash reimbursements may not be.

The current freeze on STIP allocations has also increased interest in Grant Anticipation Revenue Vehicle (GARVEE) bonding as a means of alternative financing. Under Federal and State law, the State may sell GARVEE bonds to cover the Federal portion of a STIP project's cost, with the debt service to be paid from future Federal apportionments that would otherwise be available for the STIP. The debt service payments are then counted against STIP county shares over an extended period, usually 10 to 12 years.

GARVEE debt service payments, like AB 3090 reimbursements, are STIP cash commitments. They have higher priority than any other STIP or SHOPP allocation, a priority even higher than AB 3090 reimbursements. This priority means that a GARVEE approval in one county can reduce programming flexibility in other counties, particularly when the debt service requires cash when there is a shortage of cash to support all projects as programmed.

### **Discussion:**

Since the September meeting, Commission and Department staff have been engaged in discussions with the State's bond counsel and bond underwriter for the GARVEE program. The bond underwriter has extensive experience with the GARVEE program and its use in other states. Those discussions have suggested the desirability of having a Commission policy to regulate GARVEE indebtedness in order to balance leveraging with the potential to achieve high investment grade ratings. The existence of such a policy would provide assurance of a higher level of coverage for bond debt service than is assured by statute alone. (The statutes limit annual repayment obligations to 30% of annual Federal revenues.) A higher level of coverage means reduced risk and a higher bond rating, which in turn reduces interest on the bond debt.

Our discussions with the bond underwriter suggest that annual GARVEE debt service ought to be limited to about \$350-400 million in order to achieve high investment-grade ratings. It is important to note that this is a cumulative limit. That is, if the Commission were to establish an annual debt service of \$350 million and then approve GARVEE bonds requiring the full \$350 million per year for debt service, there would be no capacity remaining to approve additional bonding until the first bonds were retired, probably not for 10 to 12 years. To use the full capacity at once would be to assume that no better projects or greater needs will be found later. For this reason, the Commission will probably want to establish lower interim limits for staged GARVEE approvals, retaining some capacity for later bonding.

Our discussions also suggest the desirability of maintaining a minimum GARVEE project size. Large projects reduce administrative costs, and the bond market will look more favorably upon an issue with projects of high impact or “essentiality.” Project size is a major element, even if not the sole measure, of this impact. A desirable threshold for this purpose would be about \$50 million. At the same time, the Commission must recognize the mandate from the Legislature that the Commission’s guidelines for the GARVEE program “be designed to allow as many counties as possible to establish eligibility for funding ... regardless of the population or geographic location of the county.” One way to do this would be to consider smaller projects from smaller counties, provided that the projects are large in relation to the STIP county share.

### **Status of Current Commitments and Proposals:**

Attached to this item for reference is a listing of current and proposed commitments for AB 3090 cash reimbursements and GARVEE debt service. It includes the five STIP amendments being presented for notice in October.

### **Baseline Proposal:**

As a baseline, staff recommends the following set of policies. Even if individual figures in the recommendation are altered, this is meant to outline a comprehensive approach to the issue.

- Retain the present limitation on AB 3090 cash reimbursements, \$200 million annually statewide and \$50 million annually for any single county or agency, and review that limitation after the 2004 STIP is adopted.
- Limit GARVEE bonding to projects requiring bond proceeds either over \$50 million or over 80% of the county share for the 4-year period from FY 2004-05 through FY 2007-08.
- Adopt a long term policy limiting annual GARVEE debt service statewide to 15% of qualifying Federal revenues, which is about \$350 million annually. In addition, approve the following interim targets:
  - Prior to the adoption of the 2004 STIP, limit the total of GARVEE debt service and AB 3090 cash reimbursements to \$250 million annually statewide and \$62.5 million annually for any single county or local agency. This 25% increase from the current AB 3090-only limits recognizes the Commission’s prior commitments.
  - In the adoption of the 2004 STIP, limit GARVEE debt service to \$160 million annually statewide and \$40 million annually for any single county or local agency.
  - In the adoption of the 2006 STIP, limit GARVEE debt service to \$240 million annually statewide and \$60 million annually for any single county or local agency.

# STIP CASH COMMITMENTS, AB 3090 AND GARVEE DEBT SERVICE

(\$1,000's)

|   |               |       |   |         | Project Totals by Fiscal Year |        |        |        |        |        |
|---|---------------|-------|---|---------|-------------------------------|--------|--------|--------|--------|--------|
| County  | Agency        | PPNO  | Project   | Total   | FY 04                         | FY 05  | FY 06  | FY 07  | FY 08  | FY 09  |
| AB 3090 Cash Reimbursements, Approved in Prior Programming                    |               |       |   |         |                               |        |        |        |        |        |
| Alameda   | Caltrans      | 16R   | AB 3090 reimbursement (880 HOV)(02S-74A)                | 11,800  | 0                             | 11,800 | 0      | 0      |        |        |
| Los Angeles   | LACMTA        | 3358  | AB 3090 reimbursement (0S-52)(Eastside)                 | 175,000 | 0                             | 0      | 43,600 | 43,800 | 43,800 | 43,800 |
| Los Angeles   | LACMTA        | 9001  | AB 3090 reimbursement (02S-63)(FY 03 PPM)               | 3,837   | 0                             | 3,837  | 0      | 0      | 0      | 0      |
| Riverside   | Caltrans      | 121D  | AB 3090 reimbursement (Rt 60/91/215)(02S-102)(RIP, 85%) | 26,625  | 0                             | 0      | 0      | 26,625 | 0      | 0      |
| Riverside   | Caltrans      | 121D  | AB 3090 reimbursement (Rt 60/91/215)(02S-102)(IIP, 15%) | 4,699   | 0                             | 0      | 0      | 4,699  | 0      | 0      |
| Sacramento  | Sacramento    | 9L02A | AB 3090 reimbursement (02S-89)(N 3rd, Vine, recon)      | 1,891   | 0                             | 1,891  | 0      | 0      | 0      | 0      |
|   |               |       |   |         |                               |        |        |        |        |        |
|   |               |       | SUBTOTAL:   | 223,852 | 0                             | 17,528 | 43,600 | 75,124 | 43,800 | 43,800 |
| GARVEE Debt Service, Prior Allocation Approvals                               |               |       |   |         |                               |        |        |        |        |        |
| Riverside   | Caltrans      | 121D  | GARVEE debt (Rt 215, El Cerrito- Rt 60/91)(RIP, 85%)    | 109,403 | 0                             | 14,986 | 17,025 | 25,805 | 25,798 | 25,789 |
| Riverside   | Caltrans      | 121D  | GARVEE debt (Rt 215, El Cerrito- Rt 60/91)(IIP, 15%)    | 19,305  | 0                             | 2,644  | 3,004  | 4,554  | 4,552  | 4,551  |
| San Diego   | Caltrans      | 672   | GARVEE debt (Rt 15, mid seg)(RIP 75%)(02S-51)           | 85,400  | 0                             | 17,080 | 17,080 | 17,080 | 17,080 | 17,080 |
| San Diego   | Caltrans      | 672   | GARVEE debt (Rt 15, mid seg)(IIP 25%)(02S-51)           | 28,465  | 0                             | 5,693  | 5,693  | 5,693  | 5,693  | 5,693  |
| Santa Clara   | SCVTA         | 409C  | GARVEE debt (Rt 880 Coleman)(02S-60)                    | 39,210  | 0                             | 7,842  | 7,842  | 7,842  | 7,842  | 7,842  |
|   |               |       |   |         |                               |        |        |        |        |        |
|   |               |       | SUBTOTAL:   | 281,783 | 0                             | 48,245 | 50,644 | 60,974 | 60,965 | 60,955 |
| GARVEE Debt Service, Other Programming Approved                               |               |       |   |         |                               |        |        |        |        |        |
| Santa Clara   | SCVTA         | 443N  | GARVEE debt (Rt 87 HOV North, Julian-Rt 280)(02S-60)    | 20,720  | 720                           | 4,000  | 4,000  | 4,000  | 4,000  | 4,000  |
| Santa Clara   | SCVTA         | 443S  | GARVEE debt (Rt 87 HOV, Rt 280-Rt 85)(02S-60)           | 24,328  | 828                           | 4,700  | 4,700  | 4,700  | 4,700  | 4,700  |
|   |               |       |   |         |                               |        |        |        |        |        |
|   |               |       | SUBTOTAL:   | 45,048  | 1,548                         | 8,700  | 8,700  | 8,700  | 8,700  | 8,700  |
| AB 3090 Cash Reimbursements, October STIP Amendment Notices (December action) |               |       |   |         |                               |        |        |        |        |        |
| Los Angeles   | Los Angeles   | 3376  | AB 3090 reimbursement (Tampa Av bridge)(02S-104)        | 243     |                               |        | 243    |        |        |        |
| Los Angeles   | Los Angeles   | 3377  | AB 3090 reimbursement (Winnetka Av bridge)(02S-104)     | 223     |                               |        | 223    |        |        |        |
| Los Angeles   | Los Angeles   | 3378  | AB 3090 reimbursement (Vanowen St bridge)(02S-104)      | 339     |                               |        | 339    |        |        |        |
| Los Angeles   | Los Angeles   | 3379  | AB 3090 reimbursement Laurel Canyon Bl bridge)(02S-104) | 270     |                               |        | 49     | 221    |        |        |
| Los Angeles   | Los Angeles   | 3380  | AB 3090 reimbursement (Soto St bridge)(02S-104)         | 1,341   |                               |        | 1,341  |        |        |        |
| Placer  | Rocklin       | 151E  | AB 3090 reimbursement (Sierra Bl, Rt 80)(02S-115)(RIP)  | 7,432   |                               |        |        | 7,432  |        |        |
| Placer  | Rocklin       | 151E  | AB 3090 reimbursement (Sierra Bl, Rt 80)(02S-115)(IIP)  | 11,000  |                               |        |        | 11,000 |        |        |
| San Diego   | S D MTDB      | 978A  | AB 3090 reimbursement (auto fare tech)(02S-112)         | 19,500  |                               |        |        | 19,500 |        |        |
| Tulare  | Tulare County | D004  | AB 3090 reimbursement (Rd 108)(02S-114)                 | 350     |                               |        | 350    |        |        |        |
| Tulare  | Tulare County | D003  | AB 3090 reimbursement (Rd 80)(02S-114)                  | 400     |                               |        | 400    |        |        |        |
|   |               |       |   |         |                               |        |        |        |        |        |
|   |               |       | SUBTOTAL:   | 41,098  | 0                             | 0      | 2,945  | 38,153 | 0      | 0      |
| GARVEE Debt Service, October STIP Amendment Notices (December action)         |               |       |   |         |                               |        |        |        |        |        |
| Los Angeles   | Caltrans      | 27J   | GARVEE debt (Rt 1, Hughes Terr-Fiji Wy)(02S-105)        | 4,290   |                               | 858    | 858    | 858    | 858    | 858    |
| Los Angeles   | Caltrans      | 27K   | GARVEE debt (Rt 1, Hughes Terr-Sepulveda)(02S-105)      | 1,975   |                               | 395    | 395    | 395    | 395    | 395    |
| Los Angeles   | Caltrans      | 162P  | GARVEE debt (Rt 5 HOV, Rt 118-Rt 14)(02S-105)           | 6,700   |                               | 1,340  | 1,340  | 1,340  | 1,340  | 1,340  |
| Los Angeles   | Caltrans      | 2120  | GARVEE debt (Rt 5, Western Av)(02S-105)                 | 2,760   |                               | 552    | 552    | 552    | 552    | 552    |

**STIP CASH COMMITMENTS, AB 3090 AND GARVEE DEBT SERVICE**  
(\$1,000's)

| County      | Agency      | PPNO  | Project   | Total   | Project Totals by Fiscal Year |        |         |         |         |         |
|-------------|-------------|-------|---|---------|-------------------------------|--------|---------|---------|---------|---------|
|             |             |       |   |         | FY 04                         | FY 05  | FY 06   | FY 07   | FY 08   | FY 09   |
| Los Angeles | Caltrans    | 2969  | GARVEE debt (Rt 10 HOV fiber optic relocation)(02S-105) | 115     |                               | 23     | 23      | 23      | 23      | 23      |
| Los Angeles | Caltrans    | 391A  | GARVEE debt (Rt 14 HOV, Pearblossom Hwy)(02S-105)       | 20,725  |                               | 4,145  | 4,145   | 4,145   | 4,145   | 4,145   |
| Los Angeles | Caltrans    | 2012A | GARVEE debt (Rt 90, Mindanao-Centinela)(02S-105)        | 8,735   |                               | 1,747  | 1,747   | 1,747   | 1,747   | 1,747   |
| Los Angeles | Caltrans    | 2119  | GARVEE debt (Rt 105, NB Sepulveda off ramp)(02S-105)    | 6,080   |                               | 1,216  | 1,216   | 1,216   | 1,216   | 1,216   |
| Los Angeles | Caltrans    | 2223  | GARVEE debt (Rt 134, Hollywood Way)(02S-105)(RIP)       | 950     |                               | 190    | 190     | 190     | 190     | 190     |
| Los Angeles | Caltrans    | 2223  | GARVEE debt (Rt 134, Hollywood Way)(02S-105)(IIP)       | 1,295   |                               | 259    | 259     | 259     | 259     | 259     |
| Los Angeles | Caltrans    | 3329  | GARVEE debt (Rt 138, Longview Rd-146th St)(02S-105)     | 3,690   |                               | 738    | 738     | 738     | 738     | 738     |
| Los Angeles | Caltrans    | 422Y  | GARVEE debt (Rt 210 landscaping)(02S-105)               | 1,105   |                               | 221    | 221     | 221     | 221     | 221     |
| Los Angeles | Caltrans    | 2022Y | GARVEE debt (Rt 210 landscaping)(02S-105)               | 960     |                               | 192    | 192     | 192     | 192     | 192     |
| Los Angeles | Caltrans    | 2333  | GARVEE debt (Rt 405, Waterford-Rt 10)(02S-105)(RIP)     | 23,255  |                               | 4,651  | 4,651   | 4,651   | 4,651   | 4,651   |
| Los Angeles | Caltrans    | 2333  | GARVEE debt (Rt 405, Waterford-Rt 10)(02S-105)(IIP)     | 7,235   |                               | 1,447  | 1,447   | 1,447   | 1,447   | 1,447   |
| Los Angeles | Caltrans    | 2336  | GARVEE debt (Rt 405/101 gap closure)(02S-105)(RIP)      | 11,280  |                               | 2,256  | 2,256   | 2,256   | 2,256   | 2,256   |
| Los Angeles | Caltrans    | 2336  | GARVEE debt (Rt 405/101 gap closure)(02S-105)(IIP)      | 5,850   |                               | 1,170  | 1,170   | 1,170   | 1,170   | 1,170   |
| Los Angeles | Glendale    | 9814  | GARVEE debt (Glendale grade sep)(02S-105)(RIP)          | 2,315   |                               | 463    | 463     | 463     | 463     | 463     |
| Los Angeles | Glendale    | 9814  | GARVEE debt (Glendale grade sep)(02S-105)(IIP)          | 8,190   |                               | 1,638  | 1,638   | 1,638   | 1,638   | 1,638   |
| Los Angeles | Los Angeles | 2374  | GARVEE debt (Centinela Av widening)(02S-105)            | 1,675   |                               | 335    | 335     | 335     | 335     | 335     |
| Los Angeles | Vernon      | 4300  | GARVEE debt (Atlantic/Bandini improves)(02S-105)        | 1,580   |                               | 316    | 316     | 316     | 316     | 316     |
|             |             |       |   |         |                               |        |         |         |         |         |
|             |             |       | SUBTOTAL:   | 120,760 |                               | 24,152 | 24,152  | 24,152  | 24,152  | 24,152  |
|             |             |       |   |         |                               |        |         |         |         |         |
|             |             |       |   |         |                               |        |         |         |         |         |
|             |             |       | TOTAL, PROGRAMMED AND PENDING:                          | 712,541 | 1,548                         | 98,625 | 130,041 | 207,103 | 137,617 | 137,607 |

# STIP CASH COMMITMENTS, AB 3090 AND GARVEE DEBT SERVICE

(\$1,000's)

## SUMMARY BY COUNTY - AB 3090 & GARVEE DEBT SERVICE

| County       | Total          | FY 04        | FY 05         | FY 06          | FY 07          | FY 08          | FY 09          |
|--------------|----------------|--------------|---------------|----------------|----------------|----------------|----------------|
| Alameda      | 11,800         | 0            | 11,800        | 0              | 0              | 0              | 0              |
| Los Angeles  | 302,013        | 0            | 27,989        | 69,947         | 68,173         | 67,952         | 67,952         |
| Placer       | 18,432         | 0            | 0             | 0              | 18,432         | 0              | 0              |
| Riverside    | 160,032        | 0            | 17,630        | 20,029         | 61,683         | 30,350         | 30,340         |
| Sacramento   | 1,891          | 0            | 1,891         | 0              | 0              | 0              | 0              |
| San Diego    | 133,365        | 0            | 22,773        | 22,773         | 42,273         | 22,773         | 22,773         |
| Santa Clara  | 84,258         | 1,548        | 16,542        | 16,542         | 16,542         | 16,542         | 16,542         |
| Tulare       | 750            | 0            | 0             | 750            | 0              | 0              | 0              |
| <b>Total</b> | <b>712,541</b> | <b>1,548</b> | <b>98,625</b> | <b>130,041</b> | <b>207,103</b> | <b>137,617</b> | <b>137,607</b> |

## SUMMARY BY COUNTY - AB 3090 REIMBURSEMENTS ONLY

| County       | Total          | FY 04    | FY 05         | FY 06         | FY 07          | FY 08         | FY 09         |
|--------------|----------------|----------|---------------|---------------|----------------|---------------|---------------|
| Alameda      | 11,800         | 0        | 11,800        | 0             | 0              | 0             | 0             |
| Los Angeles  | 181,253        | 0        | 3,837         | 45,795        | 44,021         | 43,800        | 43,800        |
| Placer       | 18,432         | 0        | 0             | 0             | 18,432         | 0             | 0             |
| Riverside    | 31,324         | 0        | 0             | 0             | 31,324         | 0             | 0             |
| Sacramento   | 1,891          | 0        | 1,891         | 0             | 0              | 0             | 0             |
| San Diego    | 19,500         | 0        | 0             | 0             | 19,500         | 0             | 0             |
| Santa Clara  | 0              | 0        | 0             | 0             | 0              | 0             | 0             |
| Tulare       | 750            | 0        | 0             | 750           | 0              | 0             | 0             |
| <b>Total</b> | <b>264,950</b> | <b>0</b> | <b>17,528</b> | <b>46,545</b> | <b>113,277</b> | <b>43,800</b> | <b>43,800</b> |

## SUMMARY BY COUNTY - GARVEE DEBT SERVICE ONLY

| County       | Total          | FY 04        | FY 05         | FY 06         | FY 07         | FY 08         | FY 09         |
|--------------|----------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Alameda      | 0              | 0            | 0             | 0             | 0             | 0             | 0             |
| Los Angeles  | 120,760        | 0            | 24,152        | 24,152        | 24,152        | 24,152        | 24,152        |
| Placer       | 0              | 0            | 0             | 0             | 0             | 0             | 0             |
| Riverside    | 128,708        | 0            | 17,630        | 20,029        | 30,359        | 30,350        | 30,340        |
| Sacramento   | 0              | 0            | 0             | 0             | 0             | 0             | 0             |
| San Diego    | 113,865        | 0            | 22,773        | 22,773        | 22,773        | 22,773        | 22,773        |
| Santa Clara  | 84,258         | 1,548        | 16,542        | 16,542        | 16,542        | 16,542        | 16,542        |
| Tulare       | 0              | 0            | 0             | 0             | 0             | 0             | 0             |
| <b>Total</b> | <b>447,591</b> | <b>1,548</b> | <b>81,097</b> | <b>83,496</b> | <b>93,826</b> | <b>93,817</b> | <b>93,807</b> |